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9/27/00 Chicago Tribune (KRTBN) (Pg. Unavail. Online)
2000 WLNR 7832686

Chicago Tribune (KRT)

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September 27, 2000

Congressional Panel s Report Accuses Drug Companies of Inflating Prices

Bruce Japsen

Sep. 27--In a stinging rebuke to the pharmaceutical industry, congressional investigators say they have uncovered evidence that several drug companies -- including Abbott Laboratories and Baxter International Inc. -- reported inflated drug prices to the government to protect their market share and boost profits.

By Bruce Japsen, Chicago Tribune

Sep. 27--In a stinging rebuke to the pharmaceutical industry, congressional investigators say they have uncovered evidence that several drug companies -- including **Abbott Laboratories** and Baxter International Inc. -- reported inflated drug prices to the government to protect their market share and boost profits.

The report from the House Commerce Committee, which will be released Wednesday, also criticizes the Medicare program for ignoring flaws in its payment system that the committee said allowed drugmakers to manipulate prices.

The committee has asked the U.S. Justice Department to investigate whether drug companies have engaged in health-care fraud.

At the center of the inquiry is whether drug companies artificially raised their **average wholesale prices** to take advantage of generous government reimbursement formulas. Doctors who buy and prescribe the drugs then make money on the spread, investigators said.

Executives at Deerfield-based Baxter and North Chicago-based Abbott said they could not comment Tuesday evening because they had yet to see the committee's report.

Medicare, the federal health insurance program for the elderly and disabled, currently covers about 50 medications, mostly cancer drugs and treatments for hemophilia and AIDS, that are administered in doctors' offices and cannot be self-administered.

Yet investigators say they are eager to close any potential loopholes, especially now that both presidential candidates, Republican George W. Bush and Democrat Al Gore, debate whether to expand drug coverage for 39 million seniors.

Because of the industry's pricing practices, the investigators allege, the government health-care programs have overpaid by hundreds of millions of dollars annually.

"Drug manufacturer business practices that are designed to increase their sales or capture additional market share . . . are reprehensible and cannot be tolerated," Commerce Committee Chairman Rep. Thomas Bliley (R-Va.) said in a letter sent Tuesday to the drug industry's lobbying organization.

Baxter and other drug companies have said current prices were set and approved by the government.

"The health-care providers, not manufacturers, make claims and receive reimbursement," Baxter spokeswoman Deborah Spak said Tuesday.

Still, congressional investigators say several drug companies routinely manipulated the system by essentially raising their prices to create greater spreads that would give doctors discounts and encourage them to prescribe their drugs.

For example, a health-care provider could purchase North Chicago-based **Abbott Laboratories'** antibiotic Vancomycin for \$76. Medicare then would reimburse that provider for \$261, the commerce committee said.

"The investigation has revealed troubling patterns involving certain drug manufacturers, which appear to have deliberately manipulated the spreads between the prices they charge to providers and the Medicare reimbursement levels that are set based upon information they provide," Chairman Bliley said in his letter. "These spreads, consisting of extra Medicare dollars available to providers, were in turn used to create powerful incentives for providers to use a particular manufacturer's drug."

An Abbott affiliate, Lake Forest-based TAP Pharmaceutical Products Inc., used the phrase "return to practice" as a way to tout benefits doctors would have by prescribing its cancer drug Lupron, the committee said. TAP is a joint venture of Abbott and a Japanese firm.

A Tribune investigation published last year found that Medicare allowances for Lupron exceeded doctors' costs by \$100 to \$284 per monthly dose.

TAP's marketing of Lupron is under investigation by the U.S. attorney in Boston.

Some drug companies also began raising their prices once they knew their rivals would be able to offer a doctor or home-care provider a steeper discount, investigators said.

In 1996, Baxter executives discovered that rivals were raising their prices for a similar drug used to treat immune system disorders, so they raised the price of their Gammagard drug, according to a company memo released by the commerce committee.

"The deliberate manipulation of **"average wholesale prices"** or wholesale acquisition prices is a problem that we need to address," according to an internal memo from Baxter that was released by the committee. "The spread between the acquisition cost and the **average wholesale price** is direct profit for customers, and is being used

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to increase positioning in the market by certain manufacturers."

By October 1996, Baxter had increased the **average wholesale price** of its Gammagard by 15 percent, commerce committee documents said.

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----- INDEX REFERENCES -----

COMPANY: BAXTER INTERNATIONAL INC; ABBOTT LABORATORIES; TAP PHARMACEUTICAL PRODUCTS INC

NEWS SUBJECT: (Business Management (1BU42); Market Share (1MA91); Sales & Marketing (1MA51); Market Data (1MA11); Sales (1SA20); Major Corporations (1MA93))

INDUSTRY: (Medical Equipment & Supplies (1HE68); Pharmaceuticals Cost-Benefits (1PH30); Medical Devices (1ME31); Pharmaceuticals & Biotechnology (1PH13); Pharmaceuticals Marketing & Sales (1PH83); Medical Device Market (1ME44); Manufacturing (1MA74); Healthcare (1HE06))

REGION: (Americas (1AM92); North America (1NO39); USA (1US73); Illinois (1IL01))

Language: EN

OTHER INDEXING: (ABBOTT; **ABBOTT LABORATORIES**; AIDS; BAXTER INTERNATIONAL INC; COMMERCE COMMITTEE; CONGRESSIONAL; HOUSE COMMERCE COMMITTEE; INFLATING PRICES; TAP; TAP PHARMACEUTICAL PRODUCTS INC; TRIBUNE; US JUSTICE DEPARTMENT) (Al Gore; Baxter; Bliley; Bruce Japsen; Deborah Spak; George W. Bush; Medicare; Rep.; Thomas Bliley) (Pharmaceuticals)

TICKER SYMBOL: ABT; BAX

Word Count: 1017

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